Treasurer Dan Rutherford's position

NO MORE DEBT.

Dan Rutherford
Illinois State Treasurer

Illinois is in the midst of a budgetary crisis. Some policy makers want to continue to spend more dollars than the state brings in. Some are advocating long-term, significant borrowing which will spread the state's challenges into the future.

I respectfully disagree.

In 2002, Illinois' bond indebtedness was $12 billion; it has soared in recent years and today it stands at $45 billion. Illinois' poor financial position and habitual borrowing have lowered the state's bond ratings to a level where borrowing additional funds has become dramatically more expensive. This unsustainable debt load must be broken.

Troubling numbers:

- Illinois taxpayers' debt from borrowing = **$45 billion** (see Appendix A)
- Illinois taxpayers' unpaid bills **= $8 billion**[1]
- Illinois' unfunded pension and retiree health care liabilities = **$140 billion** (see Appendix B)

Each Illinois family shoulders this debt = $42,000 per household[2]

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[1] http://www.ioc.state.il.us/news/ViewNewsRelease.cfm?ID=7

[2] http://quickfacts.census.gov/qfd/states/17000.html

NARRATIVE

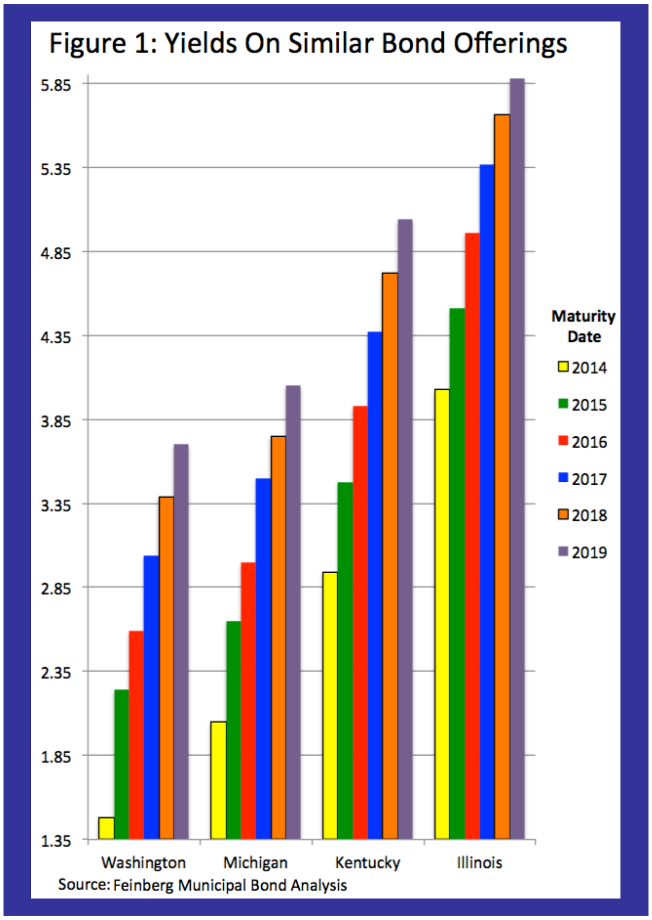
Illinois is a state where industry, innovation and progress come together to help drive the Midwest economy. Whether it is the $9 billion a year agricultural industry, the international companies that call Illinois home, the highly skilled workforce or the unmatched transportation infrastructure, Illinois has the essential elements for a dynamic economy and a healthy state budget. **So what's the problem?**

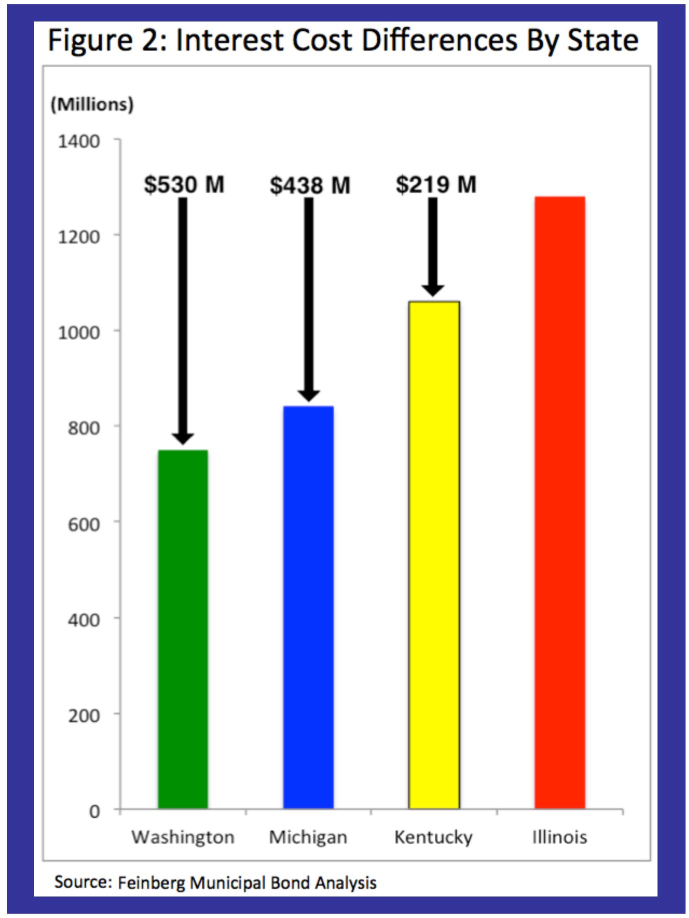
The truth is Illinois faces an unprecedented financial crisis that is negatively impacting every resident and business. The financial instability is a drag on the economy and a disincentive for job creators to invest here. As the state treasurer, I feel an even greater obligation to sound the alarm about this important issue**. Illinois is on the verge of a financial disaster.**

The Illinois state budget is woefully out of balance. Despite this year's passage of perhaps the largest tax increase in state history, state government is still spending about $5 billion more each year than it receives in revenue. Illinois has accumulated approximately $8 billion in unpaid bills. Most alarming is when the true costs of the state's unfunded obligations are included in the calculations, the state has an actual structural **annual** budget deficit of $12 billion (see Appendix C). To put those figures in perspective, Illinois is spending almost $3 for every $2 in takes in. This cannot continue.

At the heart of this budget instability are the bond issuances that are scheduled to be repaid through 2036. Illinois taxpayers owe an oppressive $45 billion over the next 25 years on these bonds (see Appendix A). **Every household in the state is obligated to repay $10,000 for this borrowing.**

As the state treasurer, I am here to sound the alarm – Illinois taxpayers cannot afford more debt!





The sale of additional bonds (borrowing) has become far too expensive. The three largest bond rating houses – Standard & Poor's, Moody's, and Fitch – estimate that Illinois carries the 2nd highest credit risk of all states in the nation; only California is worse. According to Henry Feinberg's analysis of municipal bonds (see Appendix D), if Illinois was to go into the market with another bond issuance, taxpayers would pay a significant amount more than 48 other states with healthier financial positions. Illinois borrowed another $3.7 billion in April 2011 to partially fund a pension payment; because of the state's low credit rating, taxpayers will have to repay $1.279 billion of interest; that dollar amount is 17 percent more than Kentucky, 34 percent more than Michigan, and 41 percent more than Washington which all issued similar bonds this year (see Figure 1). In actual dollars, the incremental cost to Illinois versus Kentucky will be $219 million, versus Michigan will be $438 million, and versus Washington $530 million (see Figure 2).

These numbers show the stark reality of Illinois' debt addiction. Massive, multi-billion dollar borrowing literally costs Illinois taxpayers hundreds of millions of extra dollars in repayment than if the state's credit rating was as healthy as any of our neighboring states.

To heal Illinois' financial woes, it's mandatory that borrowing stops.

The state's poor bond rating has another negative impact: the "halo" effect cast on the municipalities and counties in Illinois makes borrowing even more expensive for them when they issue bonds to fund major infrastructure projects. In March 2011, Sangamon County, Illinois, issued a $10 million bond. Similar bonds were issued the same month in Muhlenberg County, Kentucky, at a rate 14 percent lower and in Clear Lake City, Texas, at a rate 17 percent lower. When multiplying this halo effect over hundreds of Illinois communities one realizes that scores of Illinois taxpayers will be taking a substantial financial hit twice.

This bond conversation does not even take into account the unfunded obligations associated with Illinois' five pension funds and the retiree health care benefits that have been promised to government workers. The liability associated with the state's pension plans and retiree health care programs dwarf all other state debts. They are now more than $140 billion (see Appendix B), and that number grows every day that the status quo continues. The overall pension and retiree health care liabilities are equivalent to an additional $30,000 per Illinois household. If the state is ever to get its finances in order, it must address these issues. And we must act now.

To comprehend the magnitude of the challenge to protect pensions, consider the findings of the non-partisan Pew Center on the States[3]. Pew found that Illinois has the worst-funded pension systems in the country – worse than California and worse than New Jersey. In a report released April 26, 2011, Pew noted that Illinois' pension funds had just 51 percent of the assets necessary to cover obligations. Healthy pension funds should have assets equal to 80 percent of obligations. This alarming figure trends downward each year and if something is not done, the state's pension funds will run out of money – and that would be a disaster for everyone in Illinois. Hard working government employees like teachers, nurses and prison guards *deserve to have their retirement benefits protected*. We cannot ignore this problem any longer.

The governor has submitted a budget to the General Assembly for FY12 which contains an even larger deficit than previously calculated according to the Institute for Illinois' Fiscal Sustainability at the Civic Federation on May 8, 2011[4]. According to the Civic Federation's analysis, the governor's proposed spending is $2.4 billion greater than revenues even when factoring in the personal and corporate income tax increase. Reform of public pensions is a critical piece of the overall budget solution.

It is time Illinois honestly confronts its financial problems head on. It will not be easy. No more debt and beginning to live within the means of taxpayers is essential for the fiscal stability of Illinois' future.

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[3] http://www.pewcenteronthestates.org/initiatives_detail.aspx?initiativeID=85899358839
[4] http://www.civicfed.org/press-room/governor%E2%80%99s-budget-proposes-increased-spending-artificially-inflated-revenues-expensive-bo

CONCLUSION

- Bond repayment debt currently stands at **$45 billion**. Illinois must stop borrowing; in 2002 bond debt totaled only $12 billion. Illinois' financial position leaves our credit rating second worst in the country, only ahead of California.

- Pension and retiree health care liabilities add up to **$140 billion**.

- Total debt liability for Illinois families currently stands at **$42,000 per household**.

- Responsible budgeting: **spending only as much money as the state brings in.** This will help set Illinois on a course of financial recovery.

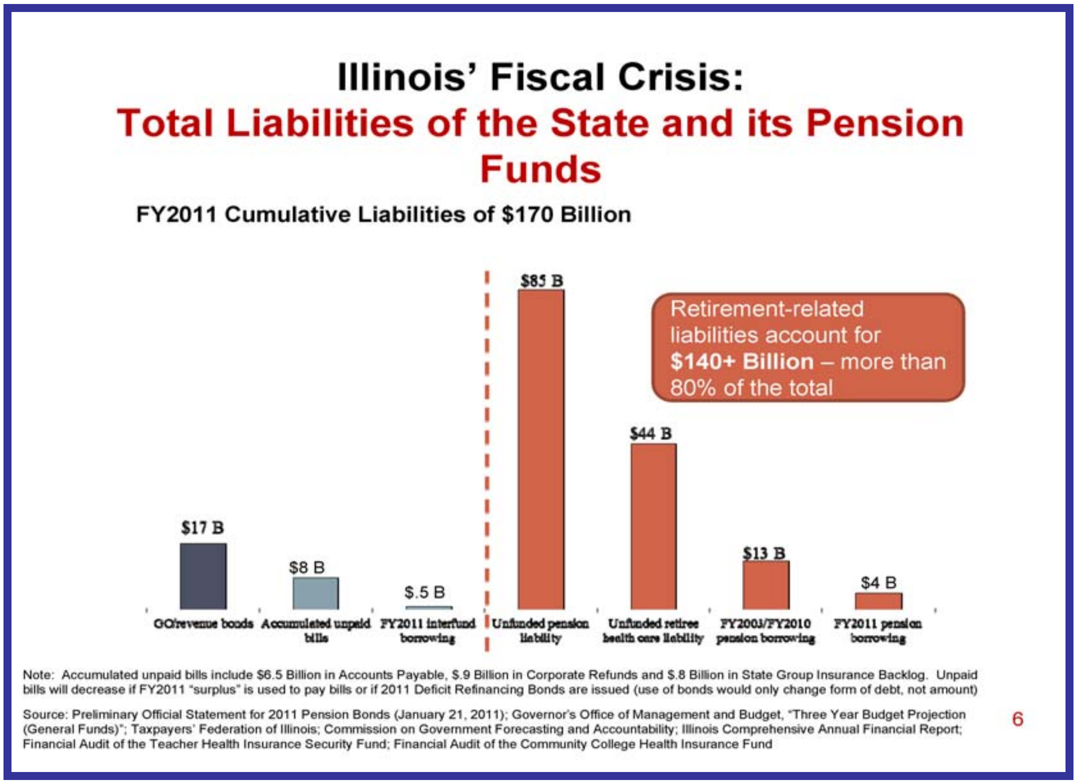
- Freezing state spending will begin to **shrink the debt and help repair Illinois' miserable credit rating**. Taxpayers, pension recipients, and future generations of Illinois citizens can afford nothing less.

APPENDIX

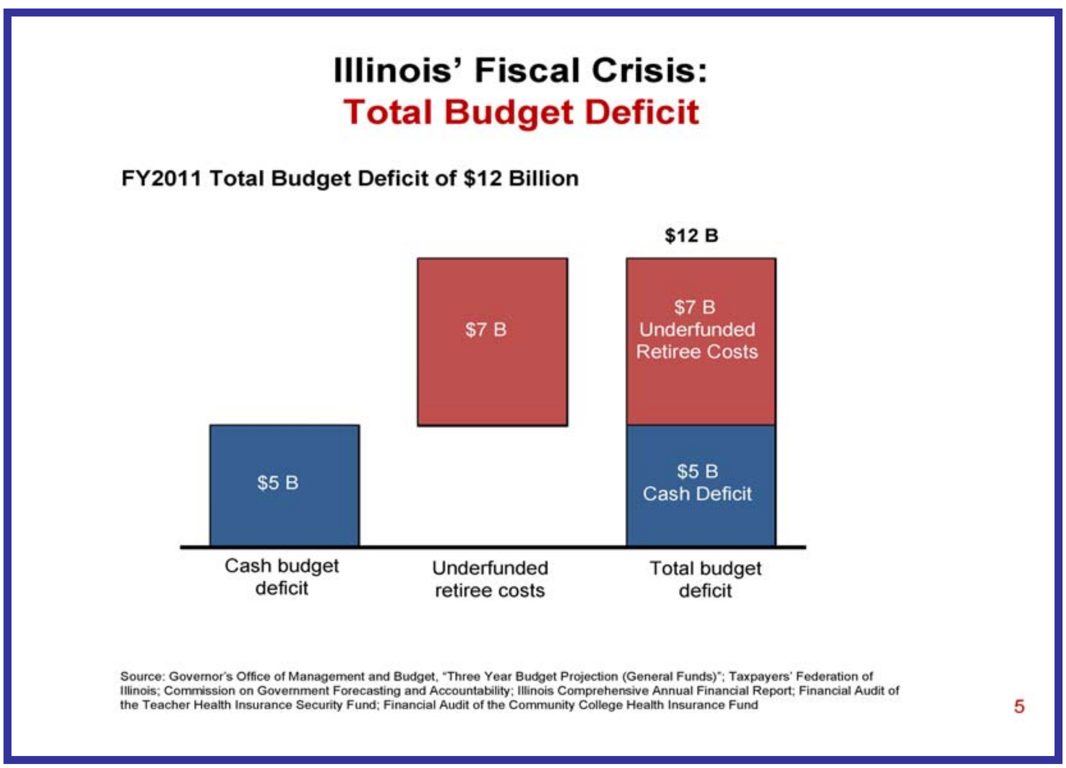
Appendix A – State of Illinois Bond Repayment Schedule

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL BY YEAR
FY11	$84,905,000	$275,506,500.00	$360,411,500.00
FY12	$1,561,880,000	$1,338,163,056.75	$2,900,043,056.75
FY13	$1,549,360,000	$1,293,254,407.25	$2,842,614,407.25
FY14	$1,628,035,000	$1,237,982,554.63	$2,866,017,554.63
FY15	$1,825,610,000	$1,170,322,522.63	$2,995,932,522.63
FY16	$1,321,735,000	$1,089,416,998.75	$2,411,151,998.75
FY17	$1,588,340,000	$1,026,991,688.75	$2,615,331,688.75
FY18	$1,892,820,000	$947,038,288.75	$2,839,858,288.75
FY19	$1,477,485,000	$850,227,711.25	$2,327,712,711.25
FY20	$554,620,000	$769,605,308.75	$1,324,225,308.75
FY21	$487,775,000	$743,502,263.75	$1,231,277,263.75
FY22	$624,770,000	$713,099,447.50	$1,337,869,447.50
FY23	$1,716,210,000	$685,192,260.00	$2,401,402,260.00
FY24	$255,630,000	$602,299,555.00	$857,929,555.00
FY25	$236,860,000	$589,233,310.00	$826,093,310.00
FY26	$243,750,000	$573,364,925.00	$817,114,925.00
FY27	$368,235,000	$561,523,850.00	$929,758,850.00
FY28	$363,815,000	$542,689,150.00	$906,504,150.00
FY29	$112,640,000	$527,984,200.00	$640,624,200.00
FY30	$101,640,000	$522,023,000.00	$623,663,000.00
FY31	$52,400,000	$517,216,800.00	$569,616,800.00
FY32	$40,000,000	$514,861,800.00	$554,861,800.00
FY33	$7,686,000,000	$512,921,800.00	$8,198,921,800.00
FY34	$221,300,000	$120,971,800.00	$342,271,800.00
FY35	$971,200,000	$109,831,800.00	$1,081,031,800.00
FY36	$624,000,000	$22,782,000.00	$646,782,000.00
GRAND TOTAL	**$27,591,015,000.00**	**$17,858,006,998.75**	**$45,449,021,998.75**

Appendix B – Unfunded Pension and Retiree Health Care Liabilities



Appendix C – FY11 Structural Budget Deficit



Appendix D – State of Illinois Bond Issuance Compared to Other States

1. $3,700,000,000
State of Illinois
TAXABLE UT GO's
A1/A+ Rated
Negotiated sale - week of 2/21/11

Maturity	Coupon	Yield
2014	4.026	4.026
2015	4.511	4.511
2016	4.961	4.961
2017	5.365	5.365
2018	5.665	5.665
2019	5.877	5.877

Total interest cost: $1,279,801,800

5 year Treasury = 2.27%
10 year Treasury = 3.59%

2. $269,815,000
Kentucky Asset/Liability Comm
TAXABLE General Fund Revs
Aa2/A+ Rated
Negotiated sale - week of 2/21/11

Maturity	Coupon	Yield
2014	2.939	2.939
2015	3.478	3.478
2016	3.928	3.928
2017	4.372	4.372
2018	4.722	4.722
2019	5.039	5.039

Total interest cost: $1,060,671,550
Assuming State of Illinois identical
debt service structure (see # 1)

5 year Treasury = 2.27%
10 year Treasury = 3.59%

3. $90,375,000
State of Washington
TAXABLE UT GO's
Aa1/AA+ Rated
Competitive sale - 1/19/11

Maturity	Coupon	Yield
2014	1.48	1.48
2015	2.24	2.24
2016	2.59	2.59
2017	3.04	3.04
2018	3.39	3.39
2019	3.70	3.70

Total interest cost: $750,277,250
Assuming State of Illinois identical
debt service structure (see # 1)

5 year Treasury = 1.93%
10 year Treasury = 3.34%

4. $150,000,000
State of Michigan
TAXABLE UT GO's
Aa2/AA- Rated
Competitive sale - 4/14/11

Maturity	Coupon	Yield
2014	2.05	2.05
2015	2.65	2.65
2016	3.00	3.00
2017	3.50	3.50
2018	3.75	3.75
2019	4.05	4.05

Total interest cost: $841,557,500
Assuming State of Illinois identical
debt service structure (see # 1)

5 year Treasury = 2.23%
10 year Treasury = 3.50%

Appendix D (continued) – Illinois Municipal Bond Issuance Compared to Other Municipalities

1. $10,295,000
Sangamon County SD #3, IL
Federal Tax-Exempt UT GO's
Aa3 / A1 (Assured Gty Insd)
Competitive sale - 3/1/11

Maturity	Coupon	Yield
2013	3.00	2.06
2014	4.00	2.41
2015	4.00	2.86
2016	4.00	3.11
2017	4.00	3.37
2023	5.00	4.50
2025	5.00	4.75
2027	5.00	5.00
2029	5.00	5.00

Total interest cost: $4,708,361

2. $11,765,000
Muhlenberg County, KY
Federal Tax-Exempt UT GO's
A1 Rated
Competitive sale - 3/3/11

Maturity	Coupon	Yield
2013	2.25	1.1
2014	2.25	1.5
2015	2.50	1.95
2016	2.625	2.2
2017	2.75	2.45
2023	4.00	3.9
2025	4.125	4.25
2027	4.40	4.5
2029	4.625	4.7

Total interest cost: $4,020,599
Assuming Sangamon County SD #3
identical debt service structure (see #5)

3. $7,620,000
Clear Lake City, TX
Federal Tax-Exempt UT GO's
AA- rated
Competitive sale - 3/10/11

Maturity	Coupon	Yield
2013	2.50	1.05
2014	2.50	1.41
2015	2.50	1.81
2016	2.50	2.06
2017	3.00	2.33
2023	4.00	3.75
2025	4.00	4.14
2027	4.25	4.35
2029	4.40	4.53

Total interest cost: $3,893,905
Assuming Sangamon County SD #3
identical debt service structure (see #5)